

CITY OF ANACORTES
Skagit County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The Annual Report Should Be Prepared And Submitted Within The Prescribed Reporting Period

The 1995 financial statements of the City of Anacortes were not completed until October 1, 1996.

RCW 43.09.230 states in part:

The State Auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

Delays in preparation of the city's annual report were primarily due to the implementation of a new software system.

When financial reports are not prepared and filed as required, the users of these reports are denied access to the agency's financial information. In addition, the delay in the reconciliation and preparation of the financial statements hinders the timely discovery and correction of errors. Furthermore, when the information provided in the city's financial statements and schedules is not available in a timely manner, audit time and costs are increased.

We recommend accurate annual reports be prepared and submitted within the prescribed reporting period.

2. Internal Controls Should Be Improved In The Municipal Court

During our audit of the City of Anacortes Municipal Court, we noted the following internal control weaknesses:

- a. Duties among cashiers lack adequate segregation and management oversight. Accounting functions are being performed by all court cashiers with unlimited computer screen access. As a result, employees may perform all aspects of any particular case without any check or balance.
- b. The Municipal Court had not generated any of the reports required by the Office of the State Auditor since they first went on line with the District Court Information System (DISCIS) in 1992.
- c. The trust account had not been reconciled for nearly two years.
- d. Separate accountability was not maintained for the three cash drawers used in the Municipal Court department. The contents of each drawer was combined and deposited without the benefit of individual reconciliations.
- e. Policies and procedures for the Municipal Court accounting system have not been established.

RCW 43.09.200, which prescribes the system of accounting for local governments, states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

The *Budgeting, Accounting and Reporting System* (BARS) manual at Vol. 1, Pt. 3, Ch. 1, pg. 23 states in part:

To reduce the risk of error, waste, or wrongful acts or to reduce the risk of them going undetected, no one individual should control all key aspects of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

BARS Vol. 1, Pt. 3, Ch. 1, pg. 24 states in part:

Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree.

These conditions exist because the Municipal Court has not implemented adequate internal controls over the cash receipting system.

The lack of accounting procedures, internal controls, and management review within the Municipal Court results in the following effects.

- a. Without the proper segregation of duties, assignment of accountability over specific duties is impossible and the city is at a higher risk of a loss or misappropriation of funds.
- b. Without the prescribed DISCIS reports being generated, a documented record does not exist. This limits appropriate management review and allows errors or irregularities to exist without being detected in a timely manner, if at all.
- c. Without performing the appropriate reconciliations, the Municipal Court cannot detect and correct errors and irregularities.
- d. Without individual reconciliations of each cash drawer, assigning accountability to individuals is not possible.
- e. Without adequate accounting policies and procedures in place, the court cannot adequately safeguard funds and account for court revenues.

We recommend city officials implement controls in the Municipal Court to ensure municipal funds are adequately safeguarded and accounted for. We further recommend the court reports be generated, retained, and adequately reviewed.

3. Internal Controls Over The Cash Receipts System Should Be Improved At The Parks Department

During our review of the City of Anacortes Parks Department cash receipts system we noted the following internal control weaknesses:

- a. Accountability for cash is not maintained when it is transferred from person to person. Cash collected at the camp sites is not counted in the presence of two people when it is turned over to the park office. The same weakness exists when the cash is turned over to the finance office.
- b. Several park office employees work out of a single cash drawer. The cash drawer is unlocked and accessible to all employees.
- c. The parks office is not depositing on a regular basis. In addition, shower and laundry revenues were not collected or deposited for several months.
- d. Due to inadequate documentation, intactness of deposits could not be determined. The correct date and mode of payment are not indicated on the receipts written at the camp sites. When a batch of these receipts are turned in to the park office, the receipt numbers within the batch are not noted on the receipt written by the park office. Without an adequate audit trail, no assurance can be given that all revenues due to the city have been received.
- e. The parks department has not established formal policies and procedures for the collection of cash and receipting functions. As a result, procedures performed lack consistency.

The Washington State Constitution, Article XI, Section 15 requires prompt deposit of public funds as follows:

All moneys, assessments and taxes belonging to or collected for the use of any county, city, town, or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer or other legal depository to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 43.09.200 which prescribes the system of accounting for local governments states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income and the amounts due and received from each source; all receipts, vouchers and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

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BARS Vol. 1, Pt. 3, Ch. 1, pg. 24 states in part:

Access to resources and records is to be limited to authorized individuals and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree.

Management was unaware of the extent of the internal control weaknesses relating to the cash receipts system. There has been some change in personnel duties resulting in variances in the manner in which cash receipting is performed.

As a result of the internal control weaknesses, there is an increased risk of errors or irregularities occurring without being detected in a timely manner, if at all. In addition, no assurance can be given that all revenues due to the city have been received.

We recommend the city improve internal controls over cash receipts by implementing the following:

- a. Cash should be accounted for each time custody is transferred by counting it in the presence of two people and immediately issuing a receipt for the amount on hand.
- b. Separate cash drawers should be maintained for each cashier. Access to the cash drawers should be limited to the cashier responsible for it.
- c. The park office should be collecting and depositing money in a timely manner.
- d. The correct date and mode of payment should be indicated on all receipts. Deposits made by the park office should be easily traced to the receipts from which they originated.
- e. The parks department should establish formal policies and procedures for the cash collection and receipting functions.